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Before the Federal Communications Commission Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	
Access Charge Reform	

CC Docket No. 96-262

COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY PACIFIC BELL AND NEVADA BELL

Southwestern Bell Telephone Company, Pacific Bell, and Nevada Bell, (collectively, "the SBC Companies") hereby respond to the Commission's Further Notice of Proposed Rulemaking as contained in its <u>Access Reform First Report and Order</u> in the above-referenced docket, released May 16, 1997.¹

I. INTRODUCTION

In the <u>Access Reform First Report and Order</u>, the Commission modified the access rate structure for the recovery of costs related to the local loop. One of these modifications was the creation of the primary interexchange carrier charge (PICC). The PICC is applied to all end-user common lines, and billed to the end user's presubscribed interexchange carrier.² The Further Notice of Proposed Rulemaking portion of the <u>Access Reform First Report and Order recognized</u> that the increased subscriber line charges assessed to end users, combined with the newly created PICCs, could encourage certain end users to migrate from the public switched network to special

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¹ Access Charge Reform, First Report and Order, CC Docket No. 96-262, (FCC 97-158) (released May 16, 1997) (Access Reform First Report and Order).

² Access Reform First Report and Order at para. 55.

access.³ Thus, the Commission tentatively proposes that PICCs should be collected on special access lines.

In the second portion of the Further Notice of Proposed Rulemaking, the Commission states that the current allocation of GSF costs allows the recovery of regulated interstate access charges costs associated with the LECs' nonregulated billing and collection functions. The Commission proposes two methods to remove general purpose computer equipment costs which are used to provide nonregulated billing and collection services to IXCs from regulated access charges. In the first, each price cap LEC would study the uses of the general purpose computer assets recorded in Account 2124, and remove the costs attributable to nonregulated billing and collection services, along with those recorded in Account 6124. In the second option, a general expense allocator would be used to allocate the interstate portion of Account 2110 and Account 6120.

II. ASSESSMENT OF PICCS ON SPECIAL ACCESS LINES.

The SBC Companies oppose the Commission's tentative conclusion that PICCs should be assessed on special access lines to avoid potential migration away from the switched network. Though we acknowledge that the Commission's new access charge structure creates the incentive to migrate traffic to special access lines, combating this problem by levying the PICC on special access is arbitrary and creates more problems than it attempts to solve. The Commission is concerned about switched traffic migrating to special to avoid PICCs, but the more obvious and more significant problem lies in switched traffic migrating to even lower priced unbundled

³ Access Reform First Report and Order at para. 402.

network elements (UNEs) to avoid PICCs and <u>all</u> other access charges. If the Commission overrides the SBC Companies' position and mandates charging PICCs on special access, it should extend this same logic by assessing PICCs (and all access charges, for that matter) on purchasers of UNEs.

PICCs are designed to recover common line costs that have been intentionally allocated to interstate switched access (specifically, in the past, to the carrier common line rate). In contrast, market-driven special access prices recover the direct costs associated with providing special access. Special access rates do not contain any allocation of common line costs. Therefore, assessing PICCs on special access lines would be arbitrary. The Commission could just as reasonably (or, in this case, *un*reasonably) assess PICCs on top of the trunk port charge paid by transport users or other services that do not currently support common line costs.

In addition, assessing PICCs on special access lines cannot be relied upon as a dependable means of recovery for legitimate common line costs. Special access is currently priced to the market. Loading unrelated costs to special access rates and expecting their recovery is completely unrealistic. The special access market simply will not support uneconomic cost recovery. To the extent the Commission relies on PICCs to recover legitimate costs, introducing PICCs on special access lines endangers that objective.

A flat rate PICC may appear to bring about a more economically efficient structure for recovering common line costs. However, the Commission ignores two more important considerations. First, the tiered PICC structure seeks revenue recovery from multiline business users in excess of underlying cost while recovery from primary residential and single business customers remains below underlying cost. Second, assessing PICCs on IXCs continues to

contradict the principle of cost causality since underlying common line costs are attributable to end users. Institutionalizing misdirected interstate common line cost recovery through the PICC on switched access inevitably distorts purchasing decisions away from switched access and toward special access. The more genuine remedy to correct this problem is *not* to assess PICCs on special access, but rather to levy the PICC on the actual cost causers -- end users -- to the degree that reflects underlying costs.

III. REALLOCATION OF GENERAL SUPPORT FACILITIES COSTS

The Access Reform First Report and Order asked for comments regarding the allocation of investments and expenses associated with General Purpose Computers. The Order bases this request on AT&T's comments that allege that the use of the general purpose computers for billing and collection (B&C) functions should be reflected in the allocation in FCC Part 69.

Nevertheless, this tired argument has been previously rejected by the Commission, and must again be rejected here.

During the Conformance of Part 69 to the new separations rules associated with the Uniform System of Accounts Rewrite (USOAR), AT&T raised this issue as part of a Petition for Reconsideration.⁴ AT&T complained that the allocator for general support facilities did not allocate a "substantial" portion of the computer expense to the B&C category. AT&T also complained about the B&C expense in accounts 6124 and 6724.⁵

⁴ AT&T Petition for Reconsideration, filed October 27, 1987, CC Docket No. 87-113.

⁵ To understand AT&T's motives, it is necessary to point out that at the same time that AT&T has complained about the allocation of expenses to the B&C category and complained about the assignment of computer expense in accounts 6124 and 6724, it has been taking back the

In April, 1990, the Commission issued a Notice of Proposed Rulemaking (NPRM) to eliminate the accounts listed by AT&T.⁶ The Commission closed this proceeding in 1996 without making the proposed changes, determining that "the additional costs that this rulemaking would place on carriers outweigh the benefits from improved accounting for computer costs. . ."⁷

The Commission also correctly rejected AT&T's PFR in 1988 because it "would introduce additional complexity in order to solve a temporary problem of uncertain magnitude." Likewise, any action now by the Commission to implement such a change would likely result in the expedited takeback of billing by AT&T, unreasonably stranding the investment and expenses for the LECs. 9

B&C functions that it has contracted with the LECs to provide. AT&T clearly desires to shift costs to the B&C category, where the services it purchases are already competitively priced, (based on arms-length negotiation and contracts) and can be reduced and/or replaced by AT&T. Clearly, AT&T has no intention of acquiescing to contract renegotiations that would increase the contract price they pay for B&C services.

⁶ Amendment of Part 32, Uniform System of Accounts for Telecommunications Companies, to Revise the Accounting for General Purpose Computer and Information Management Expense, CC Docket No. 90-215, 5 FCC Rcd 2565 (1990).

⁷ Amendment of Part 32, Uniform System of Accounts for Telecommunications Companies, to Revise the Accounting for General Purpose Computer and Information Management Expense, 11 FCC Rcd 14277 (1996), para. 1.

⁸ Amendment of Part 69 of the Commission's Rules and Regulations, Access Charges, to Conform it With Part 36, Jurisdictional Separations Procedures, 4 FCC Rcd 765 (1988), para. 43.

⁹ The Commission has recognized since 1986, when B&C services were detariffed, that B&C is a competitive service subject to the market forces that control supply, demand and alternatives. AT&T, MCI and Sprint account for the majority of LEC B&C services utilized by the interexchange carriers. These same major IXCs also have their own internal billing systems which they use for end user billing on a selective basis (and probably could use for all of their own billing). In general, these systems provide for the billing of their large and medium size business and selective residential and small business customers.

Regardless of the history of this issue, the allocation of any of the subsections of Part 69 (or Part 36 for that matter) should not be addressed in isolation. The separations rules and access cost allocation rules were developed as a comprehensive package to fulfill a specified set of policy objectives. Any tinkering with individual issues is likely to skew the balance of these comprehensive allocations and unintended consequences may result.

Any individual allocation can probably be argued not to be "cost causative", although most economists would probably agree that any cost allocation is arbitrary, including the proposed change to the allocation of investments and expenses associated with general purpose computers. Such manipulation is counter to the USOAR structure of cost allocation rules, which generally provided for allocations at an aggregate Class B account level.

Another objective of these rules is to have any allocations result in minimal shifts between the categories. This objective would also be harmed by the action proposed. Only in a comprehensive review of all the cost allocations can a new balance be struck that has meaning and purpose in the new regulatory environment.

For these reasons the AT&T proposal must <u>again be rejected</u> by the Commission as "complicating a temporary problem of unknown magnitude." In particular, Option 1 of the FNPRM should be rejected as it imposes additional regulation and complexity with its use of a special study, and Option 2 should be rejected as it would result in non-cost-causative allocations of investment and expenses to the B&C categories.

IV. <u>CONCLUSION</u>

For the foregoing reasons, the SBC Companies respectfully request that the Commission adopt the recommendations contained herein.

Respectfully submitted

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I, Kelly Brickey, hereby certify that the foregoing Comments of Southwestern Bell Telephone company", has been served June 26, 1997, to the Parties of Record.

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